BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF SUEZ WATER DELAWARE INC. FOR A GENERAL INCREASE IN RATES AND FOR A REVISION TO ITS GENERAL TARIFF (Filed February 5, 2016)	**)**	**PSC DOCKET NO. 16-0163**

DIRECT TESTIMONY OF

BRIAN KALCIC

ON BEHALF OF THE STAFF OF THE

DELAWARE PUBLIC SERVICE COMMISSION

NOVEMBER 18, 2016

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation and a principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Delaware Public Service Commission Staff ("Staff").

Q. What is the subject of your testimony?

A. Staff requested that I review the class cost-of-service study ("COSS") and rate design proposals submitted on behalf of SUEZ Water Delaware Inc. ("SWDE" or the "Company") and develop an appropriate rate design that would recover Staff witness David E. Peterson's recommended revenue requirement of $26.23 million. In addition, I will comment on the Company's proposed changes to its Tariff Rules and Regulations.

Q. How is your testimony organized?

A. My testimony is organized as follows: In Section I, I review the Company's filed COSS and proposed class revenue allocation. Section II presents Staff's recommended revenue allocation and rate design. Finally, Section III discusses the Company's proposed revisions to its Tariff Rules and Regulations.

Q. Please summarize your primary recommendations.

A. Based upon my review of the Company's filing, tariff and discovery responses, I recommend that Your Honor and the Delaware Public Service Commission ("Commission"):

- Adopt Staff's recommended revenue allocation, which provides for cost-based class increases ranging from 0.00% to 5.42%; and

- Implement Staff's recommended rate design, which includes non-uniform increases to the Company's current General Metered Service tariff charges.

The specific details associated with Staff's recommendations are discussed below.

I. Company COSS and Class Revenue Allocation

Q. Please identify the Company's current rate classes.

A. At present, SWDE provides General Metered Service ("GMS") to Residential, Commercial, Industrial, Public Authority, and Resale customers via separate rate schedules. In addition, the Company offers Public Fire Hydrant Service and Private Fire Hydrant Service via separate rates.

Q. Did the Company submit a COSS in this proceeding in support of its proposed revenue allocation and rate design?

A. Yes. Company witness Charles E. Loy prepared a COSS using the Base Extra-Capacity ("BEC") cost methodology (see MFR 8.4).

Q. Are all of SWDE's rate classes included in its COSS?

A. Yes.

Q. What does the Company's COSS indicate with respect to class cost of service?

A. The revenue increases needed to move each of SWDE's rate classes to full cost of service (or to the Company's proposed system average rate of return of 7.89%) are shown in Schedule BK-1. The COSS shows that both fire service classes (lines 6-7) are contributing revenues at *present* rates in excess of their allocated cost of service at SWDE's claimed revenue requirement level. As a result, both fire service classes would require a rate decrease in order to move to cost of service.

On the other hand, all of the Company's GMS classes except Public Authority are shown to require increases above the requested system average increase in rate revenues of 20.19% (line 8) in order to move to full cost of service in this proceeding. Finally, the cost-based increase to the Public Authority class is shown to be 20.0%, or approximately the system average.

Q. Did the Company utilize the results of its COSS as a guide in developing its proposed class revenue allocation in this proceeding?

A. In part. The Company's proposed revenue allocation at its filed revenue requirement level is shown in Schedule BK-2. As shown in column 3 of Schedule BK-2, SWDE proposes to assign: 1) no increase to the Public and Private Fire Hydrant service classes; and 2) a residual increase of 22.24% to all the Company's GMS classes.

The Company's proposal to assign the fire service classes a minimum (zero) increase is consistent with the cost-of-service results shown in Schedule BK-1. However, SWDE's proposal to assign a uniform increase of 22.24% to all GMS classes gives little or no weight to the relative levels of the cost-based increases required of each class, as reported in column 3, lines 1-5 of Schedule BK-1.

Q. Why did SWDE choose to discount its COSS results when developing its proposed revenue allocation to the GMS classes?

A. Mr. Loy testifies that SWDE considered both class cost of service and the magnitude of the Company's overall requested increase when determining its proposed GMS class increases. In the Company's view, a uniform increase to all GMS classes is equitable due to (i) the magnitude of the requested increase and (ii) the potential for Industrial and/or Resale customers to leave the system in response to receiving an increase significantly greater than system average. In other words, instead of assigning a greater multiple of the system average increase to the Industrial and Resale classes (as suggested by SWDE's COSS), the Company chose to minimize the possibility of such customers leaving its system, without unduly burdening other classes of ratepayers.[1]

Q. Do you agree with the Company's revenue allocation proposal?

A. Only in part. I agree that no class should receive a rate decrease in this proceeding, since any such decrease would act to exacerbate the increase required of other ratepayers. However, as discussed below, I recommend that the Commission adopt a revenue allocation that would result in greater movement toward cost of service for

[1] See Mr. Loy's Direct Testimony at page 34.

all GMS classes (as measured by SWDE's COSS) than under the Company's proposal.

II. Staff Revenue Allocation and Rate Design

Q. Have you developed a recommended class revenue allocation that would recover Staff's recommended revenue requirement in this proceeding?

A. Yes. Schedule BK-3 shows Staff's proposed revenue allocation, which is designed to: 1) recover Mr. Peterson's recommended revenue requirement of $26.23 million; and 2) move all rate classes toward cost of service.

Q. How did you determine the recommended class increases shown in column 2 of Schedule BK-3?

A. I developed Staff's recommended revenue allocation via four steps. First, like the Company, I assigned no increase to the Public and Private Fire Hydrant Service classes, since such classes are contributing revenues at present rates in excess of their allocated cost of service. Second, since SWDE's COSS shows that the Public Authority class's cost-based increase is approximately equal to the system average, I assigned that class Staff's system average increase in rate revenue of 4.52%. Third, I assigned an increase of 1.20 times the system average, or 5.42%, to the Industrial and Resale classes, in recognition of the fact that these classes exhibit the highest cost-based increases (in excess of 1.80 times the system average) in the Company's COSS. Fourth, since the Residential and Commercial classes require cost-based increases of similar magnitude (per lines 1-2 of Schedule BK-1), I assigned those classes the residual increase necessary to implement Staff's overall recommended revenue requirement, which results in an increase of 1.07 times the system average, or 4.83%.

Finally, I note that the recommended increases shown in Schedule BK-3 are *after* rate design. Therefore, the final increases shown in Schedule BK-3 may differ slightly from the *target* increases assigned to classes due to rounding in the rate design step.

Q. Do Staff's recommended GMS increases shown on lines 1-5 of Schedule BK-3 provide greater movement toward class cost of service than under the Company's revenue allocation proposal?

A. Yes. As previously discussed, SWDE proposes to assign a uniform increase equal to 110% of the system average to all GMS classes. As shown in Schedule BK-3, Staff's proposed GMS increases range from 100% (Public Authority) to 120% (Industrial and Resale) of the system average. As such, Staff's proposed increases are more reflective of the relative cost-based GMS increases shown in the Company's COSS, and provide greater movement toward cost of service than under the Company's proposal.

At the same time, by limiting individual class increases to no more than 120% of the system average, Staff's recommended revenue allocation does not impose an unreasonable rate impact on any class.

Q. What is the source of the small increase in Other Revenue shown on line 9 of Schedule BK-3?

A. Staff's recommended increase in Other Revenue of $6,000 is related to the Company's proposal to implement a private fire flow test charge of $250.00. I will discuss the Company's proposal later my testimony.

Q. Have you developed rates to implement Staff's recommended class revenue allocation?

A. Yes, I have. Schedule BK-4 presents Staff's recommended rate design and proof of revenue.

Q. Would you please explain the format of Schedule BK-4?

A. Present rate revenue is derived in column 3 from the class billing determinants and present rates shown in columns 1 and 2, respectively. Staff's recommended class billing determinants reflect the pro forma revenue adjustments sponsored by Mr. Peterson, and produce total pro forma operating revenues at present rates of $25.101 million, as shown on Schedule BK-4, page 4 of 4.

Staff's recommended rates are shown in column 4. Column 5 shows the annual class revenue produced by Staff's recommended rates. Finally, column 6 shows Staff's recommended percentage increases to individual tariff components and class revenue levels.

Q. How did you determine Staff's recommended GMS service charges, as shown on Schedule BK-4, page 3 of 4?

A. The Company maintains one set of service charges applicable to all of its GMS classes. I derived Staff's recommended service charges by multiplying the Company's proposed GMS service charges by the ratio of (i) Staff's recommended rate revenue level of $25.92 million divided by (ii) the Company's (as filed) requested rate revenue level of $29.43 million. In other words, I scaled back the Company's proposed service charges in proportion to the reduction in required rate revenues associated with Staff's recommended revenue requirement level.

Q. How did you determine Staff's recommended GMS consumption charges?

A. In all cases, I determined Staff's recommended GMS consumption charges as a residual, *i.e.*, via the residual rate adjustments necessary to achieve Staff's target GMS class increases, given the revenue produced by Staff's recommended GMS service charges.

Q. Do all of the Company's GMS rate schedules exhibit flat rate consumption charges?

A. No, only the Commercial, Public Authority, and Resale classes have flat rate consumption charges. The Company's Residential and Industrial rate schedules have three and two rate blocks, respectively.

Q. How then did you determine Staff's recommended Residential consumption charges?

A. In order to encourage conservation, the Company's Residential rate schedule contains a three-step inclining-block rate structure. To derive Staff's recommended Residential consumption charges, I assigned a uniform (residual) increase of approximately 10.0% to all rate blocks. When combined with the roll-in of SWDE's

current DSIC from 7.50% to 0.00%, Staff's recommended rate design produces an overall increase in Residential revenues of 4.83%.

Q. How did you develop Staff's recommended Industrial consumption charges?

A. The Company's Industrial rate schedule contains a two-step declining-block rate structure. Consistent with SWDE's proposed rate design, I assigned a uniform (residual) increase of 13.4% to the Company's existing Industrial consumption charges, so as to produce an overall Industrial revenue increase of 5.42%.

Q. How did you determine Staff's recommended Public and Private Fire Hydrant Service rates shown in Schedule BK-4, page 2 of 4?

A. Since neither fire service class is assigned an increase under Staff's proposal, the recommended fire service rates shown on page 2 of Schedule BK-4 simply reflect a revenue neutral roll-in of the existing 7.5% DSIC.

Q. Have you prepared a summary of Staff's recommended GMS tariff charges?

A. Yes. For ease of reference, Schedule BK-5 compares Staff's recommended GMS rates to SWDE's present charges (inclusive of the DSIC), by tariff component.

Q. Do you have a recommendation in the event that the Commission awards the Company a revenue adjustment that differs from Staff's recommended level?

A. Yes. If the Commission awards the Company a larger (or smaller) increase than recommended by Mr. Peterson, I would recommend that the revenue adjustments shown in column 2 of Schedule BK-3 be scaled up (or down) proportionately.

III. Tariff Rules and Regulations

Q. What specific tariff proposals do you wish to discuss in this section of your testimony?

A. I will discuss the Company's proposed changes to its Rules and Regulations regarding (i) the metering of new private fire service connections and (ii) the implementation of a charge of $250.00 to test the rate of flow of existing private fire service connections that are unmetered.

Q. What is SWDE's proposal with respect to private fire service metering?

A. The Company is proposing to add new tariff language in Paragraph 6, under the section Meters, on Third Revised Sheet No. 4, which would require all new private fire services to be metered and equipped with a backflow prevention device.

Q. Why is SWDE proposing to make this change?

A. The Company asserts that the new metering requirement is necessary to ensure that all water usage is metered (or accounted for), where possible.

Q. Does Staff agree that Paragraph 6 on Third Revised Sheet No. 4 should be adopted?

A. Yes. Metering new private fire service connections should assist the Company in reducing unaccounted for water usage. Moreover, the requirement that such connections include a backflow prevention device will help to protect the safety of the Company's water supply.

Q. What is SWDE's proposal with respect to testing the flow rates of existing private fire service connections?

A. The Company is proposing to add new tariff language in Paragraph 9, under the section Miscellaneous, on Third Revised Sheet No. 9, which would (i) require a customer to notify the Company three business days prior to any testing of a fire flow system and (ii) permit the Company to assess a charge of $250 per fire flow test. Any customer that conducts a fire flow test without notifying the Company would be subject to a penalty of $1,000.00.

Q. Does Staff agree with the Company's proposal regarding the testing of unmetered private fire service connections?

A. Yes. The requirement that the Company be present to test unmetered private fire connections should help prevent unauthorized use of water.

Q. Does Staff agree with the Company's proposed test charge of $250.00?

A. Yes. The charge is intended to cover the Company's cost (labor and materials) of conducting a typical fire flow test.

Q. Has SWDE reflected any revenue related to the proposed test charge in its filing?

A. No, it has not.

Q. Has Staff reflected any revenue related to the proposed test charge in its recommended rate design?

A. Yes. As shown on line 9 of Schedule BK-3, Staff estimates that the Company will collect approximately $6,000.00 in additional Other Revenue upon approval of the new fire flow charge.

Q. How did Staff arrive at its estimate of $6,000.00 in fire flow charge revenues?

A. In response to PSC-RS-2.12, the Company states that it performed an average of 24 fire flow tests per year, on behalf of customers, over the period 2013-2015. Staff multiplied the proposed charge of $250.00 times 24 to arrive at the $6,000.00 increase in Other Revenue shown in Schedule BK-3.

Q. Does this conclude your direct testimony?

A. Yes.

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics, and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis, and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas, and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory services.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Indiana, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.